

Mount Kenya



University

UNIVERSITY EXAMINATION 2012/2013

SCHOOL OF BUSINESS AND PUBLIC MANAGEMENT

DEPARTMENT OF ACCOUNTING & FINANCE

REGULAR

UNIT CODE: ACC 322

UNIT TITLE: ACCOUNTING FOR LIABILITIES

DECEMBER 2012

MAIN EXAM

TIME: 2HRS

ANSWER ALL QUESTIONS IN SECTION A AND ANY OTHER TWO QUESTIONS IN SECTION B

SECTION A

1. a) I. What is a mortgage? (1 Mark)
II. On November 1, 2004, Stats Man Ltd obtains a fifteen year Sh. 175,000 mortgage with a 7.5% interest rate and a monthly payment of Sh. 1,622.28.
Required:
Show the journal entries to record the receipt of the mortgage and the first two installment payments (8 Marks)
- b) Discuss four characteristics of a capital lease (4 Marks)
- c) Discuss four types of dividends issued by Kenyan Companies (8 Marks)
- d) Differentiate between an interest bearing note and a non-interest bearing note (2 Marks)
- e) Rocky Ltd has been experiencing liquidity problems. To help Rocky Ltd stay afloat on March 1, 2009, Kyuso Ltd lends Sh. 150,000, through signing up a Sh. 150,000 at 12%, 4 month interest bearing note.
Required:
 - i. Show the journal entry to record the issuance of the note (2 Marks)
 - ii. Show the journal entry to record the accrual of interest expense on 30 June, 2009 (2 Marks)
 - iii. Show the journal entry to record the payment of the note and interest at maturity (3 Marks)

SECTION B

2. a) Mountain View Ltd discounts 15% its own Sh. 138,000. 60 days, non-interest bearing note payable on December 11, 2010.
Required:

- i. Calculate the present value of the note (2 Marks)
 - ii. Show the journal entry to record the issuance of the note (3 Marks)
 - iii. Show the journal entry to record accrued interest as at December, 31st 2010 (2 Marks)
 - iv. Show the income statement and balance sheet extract as at 31st December, 2010 (3 Marks)
 - v. Show the journal entry to record the note at maturity (4 Marks)
 - b) Clearly differentiate between registered bond and a bearer bond (4 Marks)
 - c) List three distinguishing characteristics of a liability (3 Marks)
3. a) Distinguish between a serial bond and an income bond (2 Marks)
- b) Mountain Side Farm sells Sh. 2,000,000, 9% bonds plus accrued interest on March 1, 2006. Interest is payable semi annually on July 1 and January 1. The bonds were initially issued at par.
- Required:
- i. Calculate the total proceeds on the sale of the bonds on May 1, 2006 (2 Marks)
 - ii. Show the journal entries to record the sale of the bonds on May, 2006 (3 Marks)
 - iii. Show the journal entry to record payment of the bond interest on 1st July, 2006. (3 Marks)
- c) Walkman Company issued a 10% Sh. 400,000 10 year term bonds at 100. i.e. par dated January 1, 2004, with interest payable semi-annually on January 1 and July 1. The accounting period for the company ends on December 31st.
- Required:
- i. Show the journal entry for the bond issuance (2 Marks)
 - ii. Show the journal entries for the first and second payment of interest (4 Marks)
 - iii. Show the journal entry to record the interest expense on December 31, 2004 (2 Marks)
 - iv. Show the journal entry to record the payment of the bonds at maturity (2 Marks)
4. a) Clearly distinguish between liquidating dividend and script dividends (2 Marks)
- b) At the end of year 2010, Kiptengetch Tea Factory declared a property dividend in order to familiarize stock holders with one of the company's new products. The board declared a property dividend of one kilogram of green tea the company produces for every share of outstanding common stock (before the above stock dividend.) The costs of perfume are Sh. 6 per 200 grams and has a wholesale market value of Sh. 10 per 200 grams. Any gain or loss in this transaction is already included in the earnings reported above.
- Additionally, the Board of Directors declares a cash dividend of Sh. 375,000 to be paid as appropriate to preferred and common stockholders. Earnings during 2010 totaled 750,000. Kiptengetch Tea Factory has the following shareholder's equity section as at December 31st, 2010 is as follows:
- Preferred stock, Sh. 100 par, 8% cumulative, voting 10,000 shares 1,000,000
issued and outstanding

Common stock Sh. 20 par 100,000 authorized	
70,000 shares issued and outstanding	1,400,000
Additional paid-in capital	<u>800,000</u>
Total paid in capital	3,200,000
Retained earnings	<u>3,000,000</u>
Total Stockholders' equity	<u>6,200,000</u>

Required:

- i. Show the journal entry to close the 2010 retained earnings (2 Marks)
 - ii. Show the computations for cash dividend payable (2 Marks)
 - iii. Show the record the dividend payable (2 Marks)
 - iv. Show the journal entry to record the property dividend both at cost and market value (2 Marks)
 - v. Show the journal entry to record the issuance of property dividend (3 Marks)
 - vi. Show the journal entry to record the declaration of this property dividend (3 Marks)
 - vii. Show the stock holders equity as at December 31st, 2010 (5 Marks)
5. a) Discuss disadvantages easing of property instead of buying (8 Marks)
- b) What is a capital lease? (2 Marks)
- c) Kinuthia and Ole-Ititos partnership is contemplating applying for a certificate of incorporation. What advantages will the company accrue from obtaining this certificate of incorporation (10 Marks)